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GENERAL

1. Sweden breaks off trade talks with Czechoslovakia:

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Sweden broke off trade negotiations with Czechoslovakia on 7 October, with no provision for their resumption.

The Swedish government considers that since Czechoslovakia and Poland have apparently found an alternate source of iron ore in Brazil, the Swedish bargaining position will be weakened, and that in any further negotiations the Orbit may increase its demands for strategic commodities.

Comment: The question of Czech compensation for nationalized Swedish property has been a key issue in the negotiations, which began on 1 May.

Czechoslovakia is negotiating for about 120,000 tons of high-grade iron ore from Brazil. Sweden contracted to ship 500,000 tons to Czechoslovakia last year, but suspended shipments of iron ore to both Czechoslovakia and Poland in October 1952 because of their difficulties in making payment.

2. British to propose study of tactics for Korean conference:

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The British Foreign Office is preparing to suggest to the United States that a conference be held immediately to develop tactics for a Korean political conference

in case the Communists make a surprise announcement that they will attend. The British feel that such agreement might come just before the 28 October deadline for the political conference and that it should not catch the UN napping.

The British believe that the tactics should be worked out by the United States, Britain, France, Australia and one Asian nation, and that their findings should be submitted to an early meeting of all 16 members of the United Nations Command.

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NEAR EAST - AFRICA

4. Iran unable to solve critical currency shortage:

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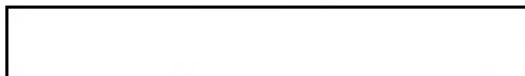


Iranian finance officials are unable to suggest a solution of Iran's critical rial shortage, according to Point IV director Warne, unless the proposed new notes are backed by an additional American loan.

Comment: The stability of Zahedi's government is seriously threatened by the rial shortage, which prevents it from meeting its financial commitments. The American government has informed Iran that the use of dollars as a backing for the currency is financially unsound. Minister of Finance Amini, however, in an apparent attempt to spur more aid, announced on 5 October that the government wanted to issue a billion rials against dollar security. The next day the "rump" Majlis approved this plan.

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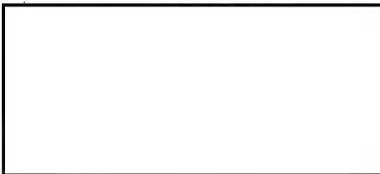
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6. Anglo-Egyptian talks face new delays:

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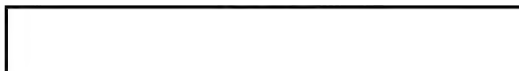
Egyptian spokesmen feel that it may take six months to draft a definitive Suez agreement.

Egypt has agreed to consider a British memorandum covering such points as the time at which British technicians are to be replaced by inspectors, and RAF staging facilities. They believe that these points must be considered in detail before an Anglo-Egyptian agreement is possible.

Comment: In view of Egyptian impatience, any delay in reaching agreement offers serious problems. Ambassador Caffery has observed that the Egyptian representatives do not share the British "poker game" concept of the negotiations and might impulsively throw down their cards and walk out.

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EASTERN EUROPE

7. Hungarian peasants' struggle against collectives may be intensified:

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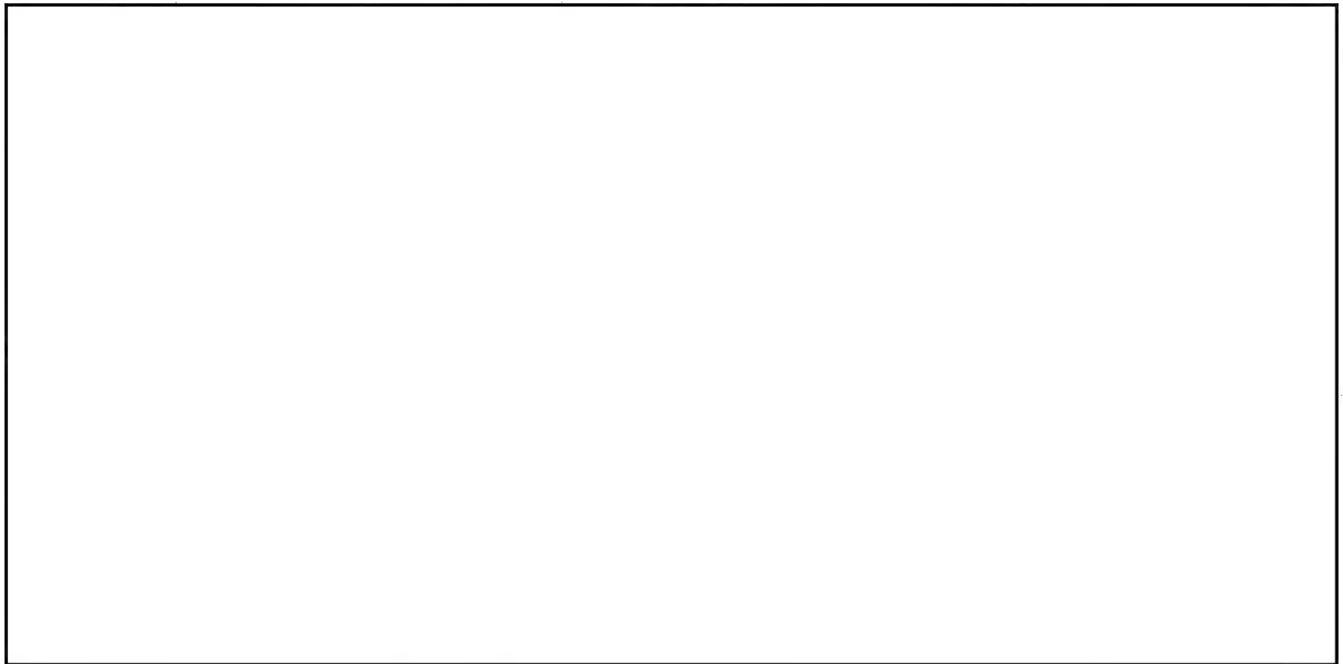


The American legation in Budapest expects the Hungarian decree of 3 October, under which peasants may leave collectives, to intensify the struggle between peasants and government. The decree gives farmers a legal basis for resisting government and party pressure but is sufficiently ambiguous to permit the use of terror methods by party bosses to prevent withdrawals.

Comment: Evidence is mounting that the government will be forced to take coercive measures to prevent large-scale withdrawals from cooperatives this fall. This situation may well result in physical violence and mass arrests this winter.

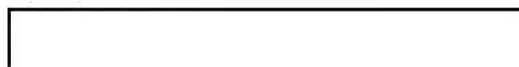
In order to prevent similar difficulties, the other Satellites have carefully avoided promising peasants the right to withdraw.

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